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SUBJECT: TURKMENISTAN'S BERDIMUHAMEDOV LAYS DOWN MARKERS TO
AMBASSADOR MANN ON AZERBAIJAN

REF: ASHGABAT 0254

Classified By: CDA Richard E. Hoagland: 1.4 (B), (D)

¶1. (S) SUMMARY: During a February 28 meeting in Ashgabat, President Gurbanguly Berdimuhamedov told Coordinator for Eurasian Energy Diplomacy Ambassador Steven Mann:

-- He rejects the concept of Gazprom as monopolist; it's Turkmenistan's key economic partner;

-- He is strongly irked at Azerbaijan's President Ilham Aliyev for not responding to his diplomatic advances;

-- Caspian delimitation talks with Azerbaijan continue, but Turkmenistan must have all of the disputed mid-Caspian Serdar/Kyapaz;

-- He approves in principle a production pipeline between Turkmenistan and Azerbaijan as a prelude to a Trans-Caspian Pipeline, and will respond formally later;

-- He would approve a confidentiality agreement with Marathon as a necessary step toward a gas-to-fuels project; and

-- He welcomes the concept of establishing a U.S.-Turkmenistan Business Council and would like to receive a concrete proposal on the initiative. END SUMMARY.

¶2. (SBU) Coordinator for Eurasian Energy Diplomacy Ambassador Steven Mann met with President Gurbanguly Berdimuhamedov for nearly two hours on February 28. First Deputy Prime Minister/Foreign Minister Rashid Meredov participated with the president. Charge d'affaires was note-taker.

GAZPROM OUR ECONOMIC PARTNER

13. (C) After brief pleasantries, the president turned serious and said, "Let's start with Gazprom. During the USSR when there was no United States for us, that's all we had. We had no choice. We had to do as we were told. But today is different. Gazprom is an economic partner -- not a "friend," but an economic partner -- because it pays us money. We negotiate, and they listen. We've incrementally raised the price of our gas. In the latter half of this year, we'll publicize that we will move in 2009 to the international-standard gas sales and purchase formula." Berdimuhamedov repeated, "Everyone says Gazprom is a monopolist, but it's not. It's our key economic partner. I have to think of national income so the country can develop." He added, "You seem to think we're like the USSR, but we are following our own model. We want to be on the path of diversification (of export routes), but we will follow our own path." Mann welcomed the switch to formula pricing but cautioned that if, contract or no contract, Russia decides in the future to change the pricing terms, Turkmenistan has no recourse, thus the need for diversification.

DISPUTES, DISPUTES, DISPUTES

14. (S) Berdimuhamedov said, "Do we want a Trans-Caspian Pipeline? Of course! Many steps have already been taken." He then complained that at the February 22 CIS Informal Summit in Moscow he had had "good chats" with other leaders, but "didn't get much out of" Azerbaijan's President Ilham Aliyev. Berdimuhamedov justified the recently announced contract for Buried Hill to exploit the disputed Serdar field in the Caspian (reftel) by exclaiming, "Azerbaijan already has British Petroleum working in areas we dispute! Look at

the problems between Ukraine and Russia. It's not that Ukraine didn't pay for its gas. The problem is more fundamental. It's a question of who controls transit and who profits. It's a question of Ukraine using the gas that transits and how much they use and then how much they pay and to whom." After picking at several other scabs, Berdimuhamedov returned to Ukraine. "You know, they're building a communications tunnel here, but they screwed it up. I told Yushchenko if his guys can't do it right, I'll put it out to international tender. So he sent one of their rich guys here, and we solved it." At another point in the conversation, Berdimuhamedov commented, "(Former Ukrainian President Leonid) Kuchma may have been a drunk, but he was a good guy. At least he ran that country!" (COMMENT: In a roundabout way, Berdimuhamedov seemed to be indicating if tough guys at the top talk, they can solve problems. He doesn't like process. The top-down model works for him because that's what he knows. END COMMENT.)

THERE'S ANOTHER MODEL

15. (C) Picking up Berdimuhamedov's thread, Mann said, "When you talk with Putin, Russia can make fast decisions because all power is at the top. Gazprom can sign declarations that seem to seal deals, then they work for several years to see if they can line up the details. For us, it's the opposite. We get all the details in place, from the bottom up, and then ask the top for a decision. For example, Chevron will soon submit to you a proposal, and this is important because it's already very detailed and serious. For us, the central question is this: is Turkmenistan ready to work with a major Western energy company?"

WE'VE BEEN DISSED!

16. (S) Ambassador Mann then briefed the president on his just completed stop in Baku, and especially on his meeting with President Aliyev. Mann told Berdimuhamedov Aliyev said:

-- I need to hear concrete plans from Ashgabat. Now is the time for clarification. Good intentions are fine, but it's now time to act.

-- He had appreciated his February 22 conversation in Moscow

with Berdimuhamedov, and that it had made a favorable impression on him.

-- The Trans-Caspian Pipeline can start with Azerbaijan and Turkmenistan linking their Caspian infrastructures. If we have a serious commitment of Turkmenistan gas, a production pipeline can become a reality.

-- On delimitation, ACG is considered Azerbaijan's. Serdar/Kyapaz especially can be discussed, and Azerbaijan would accept a minority share of it. The delimitation conflict is really a (former Turkmen President) Niyazov conflict.

17. (S) Berdimuhamedov listened in stone-faced silence, then said, "Our conversation in Moscow wasn't very nice. Aliyev doesn't want to come here (to Ashgabat) first. And besides that, old-man Aliyev stole Osman (part of ACG) from us!" Mann countered, "Aliyev really wants to meet with you." Berdimuhamedov snapped, "Let him come here!" Mann persisted and told Berdimuhamedov, "Ilham told me he could go to Ashgabat, and he would like you to visit Baku. But (Azeri Foreign Minister Mammadyarov) said it's a protocol question: the newer president should visit first the existing presidents." Berdimuhamedov retorted sharply, "That doesn't hold water. Putin and Karimov came to see me here before I

visited them." He then added archly, "Old Man Aliyev was a member of the Central Committee of the Communist Party. We have all the 'kompromat' on him!" Calming down and turning over his briefing paper and gesturing to its blank back, Berdimuhamedov said, "But now we've got a clear page. As neighbors and brothers, there shouldn't be a problem. I've done everything right. I don't want a Russia-Ukraine relationship with Azerbaijan."

18. (S) Ambassador Mann said, "The most important thing is that you have an alternative to sell your gas to the West, and how can you do that if not through Azerbaijan?" Berdimuhamedov said, "I know you're intelligent and experienced." (NOTE: By this locution, he usually means "listen up and get with the program." END NOTE.) "It's not a question of protocol. It's a question of good manners. I can go to Baku, but I've invited him twice, and he's never even answered, never even once said thank you."

19. (S) Still irked, Berdimuhamedov said, "Delimitation is a policy of Niyazov? Certainly not! It's a policy of the Turkmen nation. Aliyev acted unilaterally. Why did he do that? We were ready to negotiate on Osman and Omar but he acted unilaterally" But then he said dismissively, probably still thinking of the visit question, "Let the protocol types work it out." Meredov interjected, "We've taken good steps so far, but they didn't lift a finger!" Having been egged on, Berdimuhamedov added, "We're not cattle!" Ambassador Mann persisted, "I think this can be resolved." Continuing to chew the bone, Berdimuhamedov said, "Look, Iran is our brother and neighbor, but we turned off the gas tap. Politics is politics, but business is business. (COMMENT: Here Berdimuhamedov strongly implies the dispute with Azerbaijan is to a fair degree financial. We recall Meredov said in October 2007 in the context of delimitation, and specifically about Omar and Osman/ACG, "They've been stealing our wealth for years and will have to compensate us." END COMMENT.) Berdimuhamedov added, "We don't have to sell our gas to Azerbaijan. We can refine it here and sell our products to the world." Meredov seconded him, "Any country in the world will come here to buy our products!"

10. (S) Ambassador Mann explained what is fundamental is for Turkmenistan to develop alternate routes for hydrocarbon export, and for that Turkmenistan needs a major Western company. Ultimately, bankers who provide financing must be convinced. Continuing his separate track, Berdimuhamedov said, "Osman and Omar (ACG) we can think about, but Serdar is totally ours!" Mann continued that he had been told officially in Baku that Azerbaijan had approved three companies (British Petroleum, Wintershall, and Chevron) as

potential partners joint development with Turkmenistan, and of those Baku would prefer Chevron. Berdimuhamedov did not reply but indicated he noted the information. (COMMENT: This may have poured fuel on Berdimuhamedov's slow burn, because he had just reaffirmed the contract for the minor Canadian firm Buried Hill to develop Serdar (reftel). After Charge had sought clarification on the deal from the Hydrocarbon State Agency, Foreign Minister Meredov warned him not to meddle because the decision had been made at the top. END COMMENT.)

¶11. (C) Ambassador Mann passed to Berdimuhamedov and Meredov the U.S. government-prepared studies Berdimuhamedov had requested in their previous meeting: "Legal Basis for Bi-National Development of Offshore Resources," "Cross-Border Gas Trade Examples," and "Steps to Make Early Gas Concrete." They both skimmed the papers closely, and Berdimuhamedov commented, "This is not far from what we've discussed. We need to go step by step" Mann said, "We think it's truly

important for Turkmenistan to decide to join in the current feasibility study, which could be done without any publicity.

That would be a powerful signal to major energy companies that you are serious about alternate routes for Turkmenistan's gas. Let's work on early gas through production pipelines now and put to the side the issue of a major trans-Caspian route." The "Early Gas" paper contained a description of the feasibility study and the President indicated he would later give a formal answer on joining the study.

IT ALL DEPENDS ON SERDAR

¶12. (S) Berdimuhamedov and Meredov had a long sotto voce conversation in Turkmen, and then Berdimuhamedov responded, "We could discuss the possibility if we had all of Serdar." Then he repeated, "That Serdar is ours is not a 'Niyazov policy'! It's the policy of the Turkmen nation! If we were starting negotiations with Azerbaijan from a blank page, it would be one thing, but the page isn't blank. They've long been stealing our resources with the help of foreign companies. The Turkmen people have already suffered because of this. We make reasonable proposals to the other side, but all we get is silence. In fact, we'd accept a 'production pipeline.'" Meredov agreed. But then the president banged the table and said, "But it's our gas!" He added, "I know there were mistakes between Niyazov and the elder Aliyev, and I truly want to start on a clean page. I've suggested two or three times we exchange visits, but all I get in return is silence. I want to work with (Ilham Aliyev), but if he doesn't want to, it's his problem." At another point, when Ambassador Mann discussed the value of western business transparency versus the Soviet model of secretive game-playing state companies, and cited the BTC Pipeline as a positive model, Berdimuhamedov riposted, "But if we sell our gas to Azerbaijan and Georgia, they'll probably steal it!" Mann described in detail the way the Western private sector bars product theft, for business reasons, compared with the looser practices of state-to-state deals.

OTHER BUSINESS

¶13. (C) Mann also asked the President to approve a confidentiality agreement with Marathon as a necessary step

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toward a gas-to-fuels project, and the President said it should be "no problem." Mann advised that Chevron would present a detailed development proposal on or about March 10 and urged Turkmenistan's careful and favorable evaluation of the proposal. Mann also briefed the president on the possibility of establishing a U.S.-Turkmenistan Business Council. The president said he would welcome a concrete proposal for such an initiative.

AND JUST WHO DO THE TURKS THINK THEY ARE?

¶14. (C) To close, the president joked dryly, "And by the

way, where do the Turks get off thinking they can invite Azerbaijan and Turkmenistan to a summit? What business is it of the Turks? It would be nice if Baku and Ashgabat had bilateral relations, but we don't. We have unilateral relations!" Ambassador Mann replied that the important thing is to find a solution." Berdimuhamedov quipped, "Agreed. But I don't want it to take as long as a solution to Nagorno-Karabagh!" Meredov piped up, "Don't forget, we have an oriental mindset."

HAMMERING HOME THEIR POINTS

¶15. (S) Ambassador Mann was to have a follow-on meeting with Foreign Minister Meredov, and there was a strong possibility

of an informal working dinner with Berdimuhamedov the next day that had been carefully negotiated. But the Foreign Ministry went "radio silent" and did not respond to multiple queries. They apparently decided to use the "silent treatment" to reinforce their points: Serdar is ours; we've been dissed by Azerbaijan; we'll follow our own path.

¶16. (S) COMMENT: This was a different Berdimuhamedov than we have seen before. Rather than genial and focused, he was stern from the beginning. No matter what the topic, he brought it back to his two points about Serdar and Aliyev. It's perhaps pertinent to recall that in the earliest decades of the 20th century, first the Russian Empire and then the Soviets imported the more Europeanized Azeris to Turkmenistan to help teach the Turkmen nomads "civilization," and the Turkmen have always resented that. Their fear of being "country cousins" makes them brittle and rigidly demanding.

¶17. (S) COMMENT CONTINUED: We were taken aback by the silent-treatment refusal for the follow-on meeting with the foreign minister and the informal working dinner with the president. Only two days earlier, Charge had confirmed with Foreign Minister Meredov all was on track and had worked out details for the second presidential meeting. Unless someone, like Russia, got to them with a negative analysis of our intentions (not impossible), we can only speculate they for some reason felt they had to lay down their markers -- and did so in a traditional, tough-guy, top-down way. From these and other exchanges, it seems clear Berdimuhamedov is most comfortable with, and truly only understands (because it's his only experience and point of reference), the Soviet/Gazprom business -- and governance -- model: power at the top makes demands and cuts (often shady) deals, whether based on objective reality or not -- and carefully detailed, profit-oriented Western business models be damned. He is comfortable with Gazprom because he believes "tough guys" can slug it out, and everything else will fall into place because the tsar-khan-authoritarian leader has so pronounced.

¶18. (S) COMMENT CONTINUED: We have a long way to go with Turkmenistan, but we should not easily give up because the stakes are so high for regional strategic reasons (Iran, Afghanistan, terrorism, narcotics), for energy security, and for our own best democratic and human rights ideals. We can deploy standard talking points until we are blue in the face, but Berdimuhamedov's -- and Turkmenistan's -- psychological and ideological realities will pertain for a rather long time. If we can accept that the brittle Berdimuhamedov responds best to "respect," we can incrementally meet our long-term goals. END COMMENT.

¶19. (U) Ambassador Mann cleared this cable.
HOAGLAND